

## Federal Fiscal Programs

**H**IGH rates of inflation in 1979 and the prospect for their continuation were the major factors in the formulation of fiscal policy in the budget submitted to Congress in late January. As outlined in the budget and the *Economic Report of the President*, policy is designed to prevent the spread to the rest of the economy of double-digit price increases of oil, food, and housing and reduce the overall rate of inflation. Even though a mild recession is forecast for early 1980, the administration believes that fiscal restraint is essential to lower inflationary expectations in order to restore reasonable price stability and international confidence in the dollar. For the longer term, fiscal restraint is necessary to generate sufficient savings for the capital formation required for higher productivity growth, which in turn will help reduce inflation.

In 1979, a recession was generally expected, but at yearend had not materialized. To a surprising extent, the economy absorbed the shocks of rising oil prices, substantially accelerated inflation, and tightening monetary policy. Under these circumstances, the administration feels that the risk of fiscal restraint is far less than the risk of fiscal stimulus. Moreover, the administration believes that stimulative policies are difficult to reverse, and the long-term inflationary effects of unwarranted stimulative policies would be severe. It has indicated that less restrictive policies will be adopted if economic circumstances worsen significantly.

NOTE.—Hermione A. Anglin, Walter H. Bennett, David T. Dobbs, Kathleen M. Downs, Brenda J. Harrison, Donald L. Peters, Deloris T. Tolson, and Richard C. Ziemer assisted in the preparation of this article.

Consequently, the budget for fiscal year 1981 provides almost no increase in total real spending; an increase in defense spending is largely offset by a decline in nondefense spending. There are large tax increases for social security under current law and a proposed windfall profits tax on domestic oil producers; there are no major tax reductions.

The only major policy initiative is the energy program, which was submitted to Congress last year. The principal elements of the energy program are the windfall profits tax, energy tax credits, an Energy Security Corporation (ESC), and an Energy Mobilization Board (EMB). Details of the windfall profits tax and the energy tax credits are discussed later in this article. The ESC will provide both direct loans and loan guarantees to assist private enterprises in the development of synthetic fuel projects. It will also arrange purchasing agreements or price guarantees to shelter synthetic fuel developers from the risks they would otherwise face because of the uncertainty of future oil prices. The EMB will have the authority to waive procedural requirements of Federal, State, or local laws in order to expedite the development and construction of critical energy facilities. The goal of the energy program is to reduce oil imports from the current level of 8.1 million barrels per day to 4.5 million barrels per day by 1990.

### *Economic assumptions*

As described by the Council of Economic Advisers (CEA), most of the major sectors of the economy were weaker in calendar 1979 than in 1978. Growth of real consumption expendi-

tures over the four quarters of 1979 was the smallest since 1974, and would have been even smaller if consumers had not reduced their saving rate and increased their debt. Residential construction declined; a major factor in the decline late in the year was a substantial increase in the cost of mortgage and construction financing. Business fixed investment slowed, in part because of the gradual increase of excess capacity and reduced profit margins. Inventory investment reflected cautious policies; most industries adjusted production to avoid undesired increases in inventories. Government purchases were essentially flat. On the other hand, net exports increased substantially, helped by depreciation of the dollar during late 1977 and 1978.

Employment growth remained strong in 1979. Total employment increased over 2½ million and the unemployment rate remained in the 5.7–5.9 percent range. Productivity performance continued to be poor; productivity declined for the first time since the recession year of 1974. Inflation accelerated to 10½ percent (based on the fixed-weighted GNP price index) over the four quarters of 1979 from 8½ percent over the previous four quarters; based on the Consumer Price Index (CPI), inflation accelerated to 12½ percent from nearly 9 percent over the same period. Energy prices were the largest factor in the acceleration.

It was in this context that the administration formulated the economic assumptions underlying the 1981 budget (table 1). According to the CEA, there are a number of reasons to expect a recession in the first half of 1980. Consumer spending is likely to slow, as

likely to slow, as rising oil prices and increases in effective tax rates caused by inflation dampen consumer purchasing power and as the saving rate increases from its unusually low fourth-quarter level. Businesses will probably cut capital spending in reaction to the consumer slowdown. Housing starts may decline further in response to reduced availability of credit and high interest rates. Finally, inventory accumulation is likely to decline as final sales weaken.

However, the CEA expects the recession to be "mild and brief," not ex-

tending much beyond mid-year. Real GNP growth is expected to resume later in the year, but slowly at first. Underlying this forecast is a turnaround in consumer spending, which gathers strength in 1981, when employment is expected to rise more strongly while inflation moderates. Housing starts are likely to recover late this year in response to lower interest rates and continuing strong demographic factors. Business fixed investment and inventory accumulation are also expected to turn up as other sectors of final demand resume their growth and interest rates decline.

Gross national product is forecast to decline about 1 percent from the fourth quarter of 1979 to the fourth quarter of 1980 and to increase 2½ percent over the four quarters of 1981.

Employment is likely to be unchanged in 1980, despite the weakness in real GNP, and increases in 1981. The unemployment rate is forecast to increase to 7½ percent in the fourth quarter of 1980 and to decline to 7½ percent by the end of 1981.

The CEA expects inflation as measured by the CPI to slow in 1980, particularly in the second half; smaller increases in energy prices and in the costs of purchasing and financing homes are principally responsible. Some further slowing is expected in 1981. The CPI is projected to increase 10.4 percent over the 12 months of 1980 and 8.6 percent in 1981.

### Unified Budget

The unified budget deficit decreases from \$39.8 billion in fiscal year 1980 to \$15.8 billion in fiscal year 1981 (chart 1).

Receipts increase \$76 billion—or 14.5 percent—in 1981, to \$600.0 billion (table 2). Receipts in 1980 are \$523.8 billion, up 12.5 percent from 1979. The largest percentage increases in 1981 are in excise taxes (53 percent), which include the windfall profits tax; social insurance taxes and contributions (16 percent); and individual income taxes (15 percent). Corporation income taxes decline 1 percent; all other receipts increase about 9 percent. According to the budget, \$51 billion of the 1981 change results from tax laws in effect January 1,

**Table 2.—Federal Government Receipts and Expenditures**  
(Billions of dollars)

	Fiscal year		
	Actual 1979	Estimates	
		1980	1981
Unified budget			
Receipts.....	465.5	523.8	600.0
Outlays.....	493.7	563.6	615.8
Surplus or deficit (-).....	-27.7	-39.8	-15.8
National income and product accounts			
Receipts.....	463.7	520.6	607.7
Expenditures.....	483.6	554.2	626.3
Surplus or deficit (-).....	-9.9	-33.6	-18.6
Fiscal employment surplus or deficit (-).....	4.7	14.0	66.4

Source: "The Budget of the United States Government, 1981," Council of Economic Advisers, and the Bureau of Economic Analysis.

1978, and \$25 billion results from administrative actions and tax law changes—both enacted and proposed—since that date. Receipts in 1981 are 21.7 percent of GNP, the highest since the record 21.9 percent in fiscal 1944.

Outlays increase \$52 billion—or 9 percent—in 1981, to \$615.8 billion. Outlays in 1980 are \$563.6 billion, up 14 percent from 1979. About 56 percent of the 1981 increase—\$29 billion—is for income security and 30 percent—\$19 billion—is for national defense. Two other functions—health and net interest—more than account for the remaining increase; all other functions decline on balance. The administration is again proposing various outlay reductions requiring legislation. These reductions amount to \$5.6 billion in 1981, and include hospital cost containment and Federal pay reforms. Unusually large asset sales also limit the increase in 1981 outlays.

Estimates of outlays are subject to substantial revision. For example, the estimate of 1980 outlays has been revised upward \$32 billion from the initial estimate made in last year's budget. According to a preliminary review by the Congressional Budget Office, outlays in 1981 may be understated by roughly \$7 billion even if all of the administration's spending proposals are approved by Congress; outlays in 1980 may be slightly overstated.<sup>1</sup>

1. An Analysis of the President's Budgetary Proposals for Fiscal Year 1981. Staff working paper, February 1980.

**Table 1.—Economic Assumption Underlying the Fiscal Year 1981 Budget**

	Calendar year			
	Actual		Estimates	
	1978	1979	1980	1981
<b>Billions of dollars</b>				
<b>Gross national product:</b>				
Current dollars.....	2,125	2,304	2,507	2,642
1972 dollars.....	1,389	1,431	1,423	1,418
<b>Incomes:</b>				
Personal income.....	1,717	1,923	2,189	2,314
Wages and salaries.....	1,705	1,927	2,142	2,276
Corporate profits before taxes.....	206	238	228	242
<b>Percent change from preceding year</b>				
<b>GNP in current dollars:</b>				
Annual average.....	12.0	11.4	8.9	10.7
Fourth quarter.....	13.4	10.0	7.9	11.7
<b>GNP in 1972 dollars:</b>				
Annual average.....	4.4	2.3	-0.8	1.7
Fourth quarter.....	4.8	.8	-1.8	2.6
<b>GNP deflator:</b>				
Annual average.....	7.3	8.8	8.9	8.8
Fourth quarter.....	8.2	8.1	9.0	8.9
<b>Consumer price index:</b>				
Annual average.....	7.0	11.4	11.8	9.2
December.....	6.9	13.2	10.4	8.0
<b>Percent</b>				
<b>Unemployment rate:</b>				
Annual average.....	6.0	5.6	7.0	7.4
Fourth quarter.....	5.8	5.0	7.5	7.3
<b>Insured unemployment rate:<sup>1</sup></b>				
Annual average.....	2.8	2.9	3.0	3.0
Fourth quarter.....	2.8	2.9	3.0	3.0
<b>Interest rate, 91-day Treasury bills:<sup>2</sup></b>				
.....	7.2	10.9	10.5	9.0

1. Insured unemployment under the State regular unemployment insurance program, excluding recipients of extended benefits as percentage of covered employment under that program.

2. Average rate on new issues within the year. The estimate assumes, by convention, that interest rates vary with the rate of inflation. They do not represent a forecast of interest rates.

Source: "The Budget of the United States Government, 1981."

A comparison of budget estimates and "actuals" for 1977-80 is shown in table 3.

In constant (fiscal year 1972) dollars, total outlays increase only 0.2 percent in 1981, according to the budget.

National defense outlays increase 3.5 percent and nondefense outlays decline 1 percent (chart 2). The decline is the net result of a 3.4-percent increase in payments to individuals, mainly under the social security, unemployment in-

surance, and food stamp programs, and a 9-percent decline in all other outlays.

### Long-range budget outlook

The budget includes receipts and outlays through 1985. Outlay estimates for 1982 and 1983 have received explicit policy review, and represents the administration's tentative long-term plans for major new initiatives and program reductions. They allow for growth of real outlays in certain areas, such as defense, research and development, and energy, and declines in most other areas. In current prices, outlays increase 11½ percent in 1982 and almost 13 percent in 1983. National defense outlays increase substantially in both years. Energy outlays increase about 36 percent in 1982 and about 23 percent in 1983. The 1983 estimates include \$24 billion for national health insurance. Receipts increase 15 percent in 1982 and 15½ percent in 1983; these estimates do not reflect tax proposals beyond those assumed for 1980 and 1981. The budget is projected to be in surplus—about \$5 billion—in 1982; the surplus increases to \$25 billion in 1983.

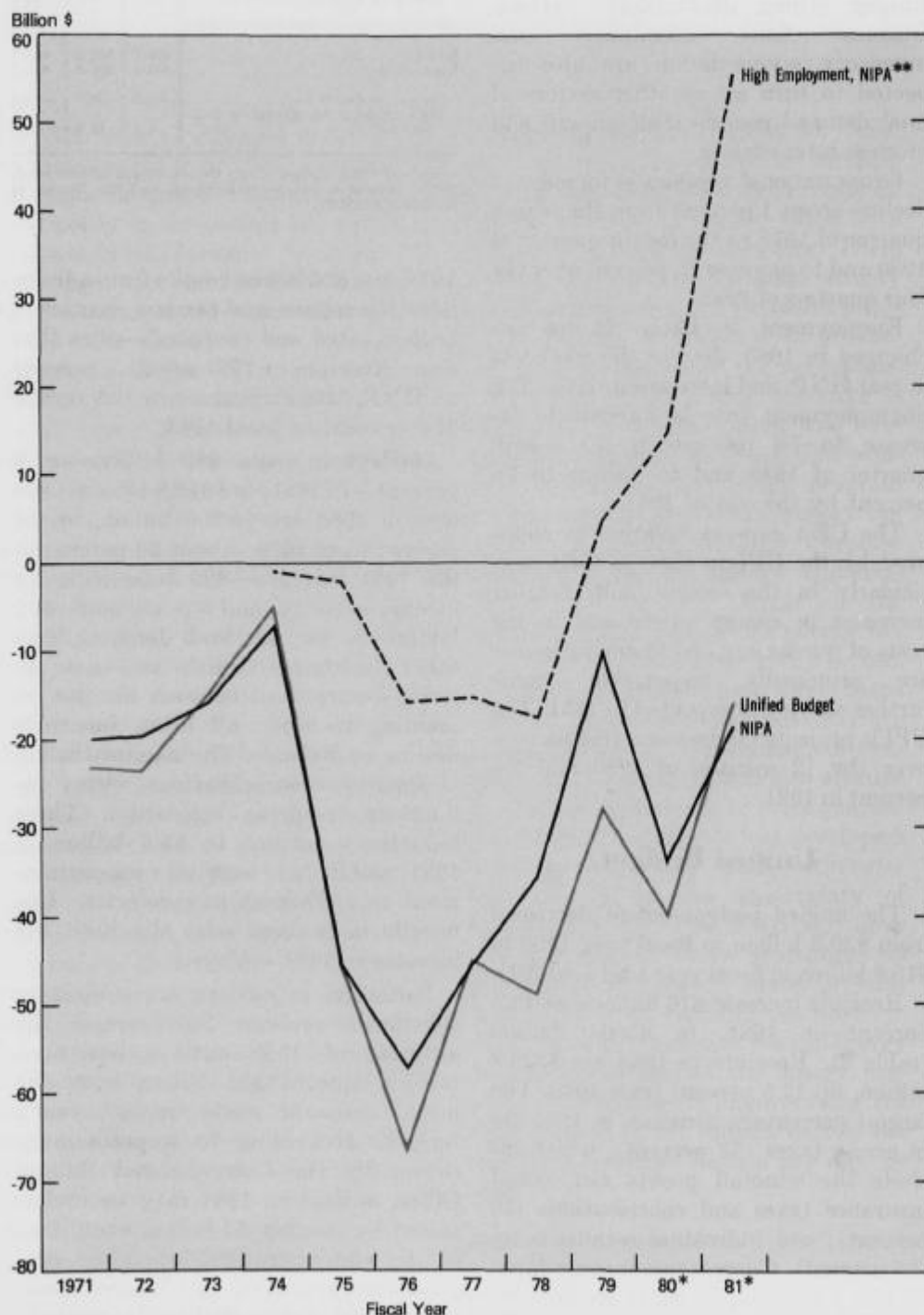
The estimates for 1984 and 1985 are extrapolations: outlays increase 8 percent in 1984 and 7½ percent in 1985; receipts increase 15 percent in both years, and the surplus continues to increase.

### Current services estimates

Current services estimates show what receipts and outlays would be without policy changes. They are neither recommended amounts nor forecasts, but rather are a base with which administration or congressional proposals can be compared. The level of outlays shown are those needed to maintain on-going Federal programs and activities at levels of the preceding year. The estimates in this year's budget also reflect the effects of inflation on virtually all programs. Previously, the current services estimates included only the effects of inflation where program benefits were tied to the cost-of-living or where there was a clear intent to cover the costs of inflation, and provided a less meaningful measure when compared with the budget than do the new estimates.

CHART 1

### Federal Fiscal Position: Surplus or Deficit

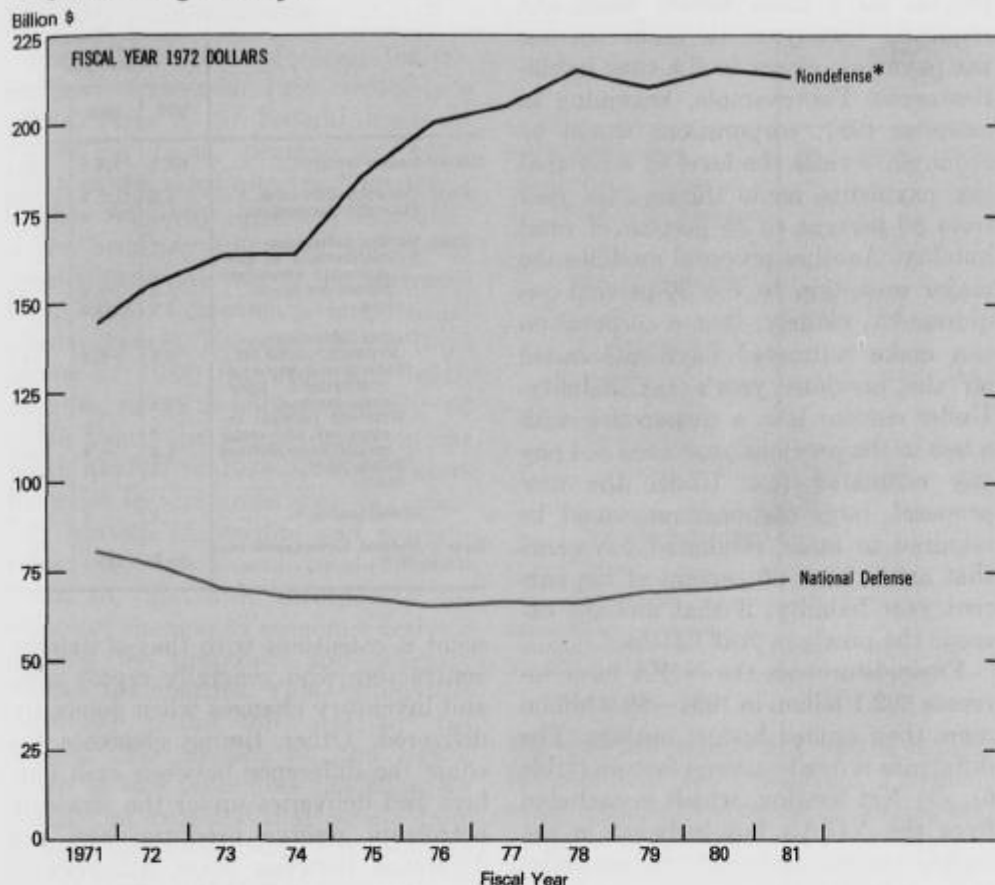


\* Estimates from Office of Management and Budget, Council of Economic Advisers, Federal Reserve Board, Treasury Department, and Bureau of Economic Analysis.

\*\* Not available before fiscal year 1974.

CHART 2

## Unified Budget Outlays



\*Nondefense outlays include payments to individuals, net interest, and all other outlays.

Data: "Budget of the United States Government, 1981."

U.S. Department of Commerce, Bureau of Economic Analysis

Despite recognition that current services outlays and tax rates would have somewhat different economic effects than the budget estimates, the current services estimates are based on the same economic assumptions. Use of different economic assumptions would make it difficult to separate the effects of policy

differences from the effect of differences in those assumptions. This year, according to the budget, the differences are small compared to the uncertainties inherent in the economic assumptions.

Unified budget receipts in 1981 are \$21 billion higher than current services receipts, largely because of the proposed

windfall profits tax and several proposals to speed up tax collections under the administration's cash management program (table 4). Unified budget outlays are \$3.8 billion higher than current services outlays, because proposed increases (\$13.5 billion) exceed proposed reductions (\$9.7 billion). About 60 percent of the increases are for national defense (excluding pay raises) and energy programs. Federal pay reform and lower net interest, reflecting a smaller budget deficit, account for 40 percent of the reductions. A significant number of the proposed reductions, such as hospital cost containment, other medicare and medicaid reforms, and impact aid to education, require legislation reducing authorized program levels. The unified budget deficit is more than \$17 billion lower than the current services budget deficit.

### Federal Sector of the NIPA's

Receipts on the national income and product accounting (NIPA) basis increase \$77.1 billion in 1981—\$0.9 billion more than unified budget receipts. The larger increase is more than explained by netting differences; all other differences, taken together, work in the other direction (table 5). Netting differences, which add to NIPA receipts relative to unified budget receipts, increase \$1.1 billion in 1980. They consist of Federal employer contributions to government employee retirement funds, which are excluded from the budget as intragovernmental transactions, but included in NIPA receipts and expenditures; items recorded as negative receipts in the unified budget but as NIPA expenditures; and items recorded as receipts in the unified budget but as negative expenditures in the NIPA's. An example of the last type of item is the payment by States to the Federal Government of a part of the additional royalties they would earn as a result of the phased decontrol of crude oil prices. This payment is part of the proposed windfall profits tax legislation assumed in the budget. It is treated as an excise tax in the unified budget and is netted

Table 3.—Unified Budget Outlays: A Comparison of Budget Estimates and "Actuals"

[Billions of dollars]

Fiscal year	Initial budget estimate	Revised budget estimate	Actual	Actual less	
				Initial budget estimate	Revised budget estimate
1977	394.2	417.4	402.8	8.6	-14.6
1978	459.4	463.2	450.8	-8.6	-12.4
1979	501.1	493.4	493.7	-7.4	.3
1980	531.6	563.6			

NOTE.—Initial budget estimates refer to those published in the January budget 9 months prior to the beginning of the fiscal year. Revised budget estimates refer to those published in the budget 1 year later. Data have been adjusted for consistent treatment of earned income credit.

Source: "The Budget of the United States Government, 1981."

Table 4.—Relation of Current Services Estimate to Unified Budget

	Fiscal year	
	1980	1981
(Billions of dollars)		
<b>Receipts</b>		
Current services estimate.....	517.4	579.9
Plus: Energy tax proposals (net):		
Wholesale profits tax.....	5.5	12.9
Other.....	.7	.5
Cash management.....	1.2	4.5
Other.....	.2	2.2
<b>Equals: Unified budget.....</b>	<b>525.8</b>	<b>599.0</b>
<b>Outlays</b>		
Current services estimate.....	580.6	512.0
Plus: Proposed program increases:		
National defense (excluding pay).....	.0	5.0
Energy programs.....	.5	2.4
Countercyclical fiscal assistance.....	.2	1.0
Other.....	1.6	4.5
Proposed program reductions:		
Federal pay.....	—	—2.7
Net interest.....	—	—1.2
Hospital cost containment.....	—	—5.0
Other.....	—	—5.0
<b>Equals: Unified budget.....</b>	<b>580.6</b>	<b>512.0</b>

Source: "The Budget of the United States Government, 1981."

against grants-in-aid to State and local governments in the NIPA's.

As noted, other differences, taken together, partly offset the effect of netting differences. The major difference is related to timing. In NIPA receipts, taxes paid by corporations are recorded on a liability basis and taxes paid by individuals (including proprietors) on a "when paid" basis; the unified budget records all receipts on a cash collections basis, i.e., largely when Federal Reserve banks inform the Treasury of deposits in Federal tax and loan accounts. Collections exceed liabilities and payments by \$4.7 billion in 1980 and \$4.9 billion in 1981. The excess in 1980 reflects two factors: (1) the decline in corporation profits forecast in the budget, which reduces liabilities more rapidly than collections; and (2) accelerated deposits of social security taxes by State and local governments. At the present time, these governments collect social security taxes from their employees on a current basis, usually biweekly, but make quarterly deposits to the Treasury 45 days after the end of the quarter. Under the revised system, effective July 1980, deposits by States and localities will be made more quickly. The somewhat larger excess in 1981 principally reflects several other cash management proposals requiring

large employers to deposit income and social security taxes withheld from employees on a more timely basis and requiring taxpayers to make income tax payments closer to the time liabilities occur. For example, beginning in calendar 1981, corporations would be required to raise the level of estimated tax payments made during the year from 80 percent to 85 percent of total liability. Another proposal modifies the major exception to the 80-percent requirement, namely, that a corporation can make estimated payments based on the previous year's tax liability. Under current law, a corporation with a loss in the previous year need not pay any estimated tax. Under the new proposal, large corporations would be required to make estimated payments that are at least 60 percent of the current year liability, if that amount exceeds the previous year liability.

Expenditures on the NIPA basis increase \$62.1 billion in 1981—\$9.9 billion more than unified budget outlays. The difference is due to several factors (table 6). (1) Net lending, which is excluded from the NIPA's but included in the unified budget, declines \$7 billion. Sales of loans by the Farmers Home Administration and the Government National Mortgage Association account for most of the decline. (2) Sales of Outer Continental Shelf oil leases, which are deducted from outlays in the budget but excluded from the NIPA's because they are transfers of assets, increase \$1.2 billion. (3) Netting differences, discussed earlier, increase \$1.1 billion. (4) Timing differences reduce NIPA expenditures relative to unified budget outlays by \$0.7 billion less in 1981 than in 1980.

Timing differences principally involve national defense purchases. Defense timing differences are of two types: (1) Military sales to foreigners are deducted from budget outlays at the time of cash receipts; in the NIPA's they are deducted from government purchases at the time of export. (2) Defense goods are recorded in the budget at the time of cash outlays, including advance payments made prior to production and progress payments made while work is in progress, and in the NIPA's mainly at the time of delivery. The NIPA treat-

Table 5.—Relation of Federal Government Receipts in the National Income and Product Accounts to the Unified Budget

	Fiscal year		
	1979	1980	1981
(Billions of dollars)			
<b>Unified budget receipts.....</b>	<b>465.2</b>	<b>523.5</b>	<b>600.0</b>
Less: Coverage differences.....	1.2	1.2	1.4
Financial transactions.....			
Plus: Netting differences:			
Contributions to government employee retirement funds.....	7.9	5.8	9.4
Other.....	2.0	2.8	4.3
Timing differences:			
Corporate income tax.....	4.0	—5.4	—4.0
Federal and State unemployment insurance taxes.....	.2	.0	.1
Withheld personal income tax and social security contributions.....	2.3	—4.4	—0.0
Excise taxes.....	.2	1.1	.7
Other.....	—	—	—2.2
Miscellaneous.....	.1	.1	.2
<b>Equals: Federal Government receipts, NIPA.....</b>	<b>461.7</b>	<b>510.6</b>	<b>607.1</b>

ment is consistent with that of defense contractors who generally report sales and inventory changes when goods are delivered. Other timing elements include the difference between cash outlays and deliveries under the strategic petroleum reserve program, and the difference between State withdrawals from the unemployment insurance trust fund in the budget and the payment of unemployment benefits in the NIPA's.

Coverage differences are also included in the reconciliation, but do not lead to major differences between increases in unified budget outlays and NIPA expenditures from 1980 to 1981. Coverage differences arise largely because the net expenditures of some agencies, such as the Postal Service and the Federal Financing Bank, are excluded from the budget but included in the Federal sector of the NIPA's. However, many of these "off-budget" entities are engaged in financial activities excluded from the NIPA's; accordingly, in table 6, total off-budget outlays are added to unified budget outlays under "coverage differences" and the associated net lending is subtracted under "financial transactions."

As a result of the changes in the reconciliation items in receipts and expenditures, the NIPA deficit does not decline as much as the unified budget deficit from 1980 to 1981: The

former declines \$15 billion, and the latter \$24 billion.

### Quarterly pattern

The mild recession forecast for the first half of calendar 1980 results in a large increase in the Federal deficit on the NIPA basis, peaking at \$47.7 billion in the third quarter. The deficit declines for three quarters thereafter as the economy improves and social security taxes are raised, but increases in mid-1981 following a large social security benefit increase. In the third quarter of 1981, the projected deficit amounts to \$8.2 billion, roughly \$5 billion below the actual deficit in the fourth quarter of 1979. Table 7 shows the major factors underlying the quarterly pattern of receipts and expenditures; the deficit and total receipts shown in this table incorporate the impact of changes in economic activity induced by proposed and recently enacted tax changes. Table 8 provides additional detail on selected tax changes; the impact on the deficit shown in this table does not allow for changes in receipts that result from changed economic activity induced by the tax reductions or increases.

The quarterly pattern is estimated by BEA with the cooperation of the Office of Management and Budget, the Social Security Administration, and the Departments of Agriculture, Labor, and Treasury. Receipts reflect the pattern of proposed and enacted legislation consistent with the budget and the administration's projected quarterly pattern of wages and profits. Expenditures reflect the pattern of proposed legislation and selected other items, such as cost-of-living increases in retirement benefits and pay raises for Federal employees.

The following paragraphs list the key factors affecting receipts and expenditures, beginning with the first quarter of 1980. These factors are discussed in more detail in the receipts and expenditures sections of this article. All estimates are seasonally adjusted at annual rates.

**First quarter 1980.**—Receipts increase despite a decline in economic activity. Indirect business taxes and contributions for social insurance increase substantially, reflecting the beginning of

**Table 6.—Relation of Federal Government Expenditures in the National Income and Product Accounts to the Unified Budget**

	(Billions of dollars)		
	Fiscal year		
	1979	1980	1981
Unified budget outlays.....	493.7	563.8	615.6
Less: Coverage differences:			
Geographic.....	4.0	4.4	4.8
Off-budget Federal outlays.....	-12.4	-30.7	-17.7
Other.....		-2.2	.2
Financial transactions:			
Net lending.....	20.5	21.1	17.1
Other.....	.2	-5.5	-2.2
Net purchases of land:			
Outer Continental Shelf.....	-1.0	-2.7	-3.0
Other.....	.4	.4	.4
Plus: Netting differences:			
Contributions to government employees retirement funds.....	7.0	8.8	0.4
Other.....	3.5	3.8	4.3
Timing differences:			
National defense purchases.....	-1.3	-2.7	-2.3
Other.....	.6	-5.5	-2.3
Miscellaneous.....			
Equals Federal Government expenditures, NIPA.....	493.8	564.2	626.2

the windfall profits tax and a higher tax base for social security. Personal taxes decline despite rising wages, because of unusually heavy refunds resulting from overwithholding in 1979. Corporate profits taxes also decline, largely due to lower profits; part of the decline in profits is attributable to the windfall profits tax.

Expenditures increase \$23 billion. Nondefense purchases increase sharply due to heavy grain purchases by the Commodity Credit Corporation (CCC) associated with the suspension of sales to Russia. Payments to low-income persons under the energy program increase transfers; interest, defense purchases, and subsidies also increase. Grants-in-aid to State and local governments decline, reflecting lower grants for public service jobs.

**Second quarter 1980.**—Receipts increase \$8 billion, reflecting additional revenue from the windfall profits tax and higher wages. Corporate profits taxes continue to decline.

Expenditures increase \$13 billion. Transfers increase sharply, partly because of rising unemployment benefits. Grants reverse their decline; payments from the energy security trust fund are stepped up. Nondefense purchases level

off, reflecting lower grain purchases by the CCC.

**Third quarter 1980.**—Receipts increase \$13 billion, despite a continued decline in corporate profits and taxes. Higher supplementary medical insurance premiums increase contributions for social insurance.

Expenditures increase \$28 billion. Transfers account for most of the increase, reflecting a 13-percent increase for social security recipients. Defense purchases continue their steady growth. Grants register a larger-than-usual increase, reflecting countercyclical and targeted fiscal assistance. Subsidies are higher, reflecting a pay raise for postal employees and continued increases in housing programs. Interest continues up, but at a slower pace.

**Fourth quarter 1980.**—Receipts increase \$19 billion, reflecting an upturn in economic activity. Corporate profits taxes increase for the first time in a year. Personal taxes and contributions for social insurance record large increases, reflecting stronger growth in wages and salaries. Indirect business taxes are augmented by proposed new taxes relating to aircraft and hazardous substances.

Expenditures increase nearly \$13 billion. Purchases are up \$6 billion, including \$4 billion for a military and civilian pay raise. Despite the pay raise, nondefense purchases are flat, reflecting the end of the Russian-related grain purchases by the CCC. Transfers continue to increase. Subsidies continue up, reflecting higher payments to farmers and payments to businesses under the energy program.

**First quarter 1981.**—Receipts increase nearly \$37 billion. Contributions for social insurance increase \$22 billion; about \$17 billion is attributable to an increase in the social security tax rate and base; the railroad retirement tax is also increased. Unemployment taxes increase sharply, reflecting higher payments by employers whose work force experienced high unemployment in 1980. Corporate profits taxes and personal taxes continue up; proposed legislation limits the increase in personal taxes. Indirect business taxes, reflecting the steadily growing

Table 7.—Federal Government Receipts and Expenditures, NIPA Basis

(Billions of dollars)

	Fiscal year				Calendar year												
	Actual 1979	Estimates		Actual 1979	Estimate 1980	Actual				Estimates							
		1980	1981			1979				1980				1981			
						I	II	III	IV	I	II	III	IV	I	II	III	
Federal Government receipts.....	483.7	530.6	607.7	497.6	544.8	478.0	485.3	584.8	.....	527.6	435.6	548.4	567.5	694.9	624.1	641.3	641.3
Legislation enacted:																	
Revenue Act of 1978.....	-0.4	-21.6	-23.4	-8.7	-21.6	-8.2	-8.6	-8.8	-9.9	-31.0	-21.4	-22.0	-22.8	-24.5	-25.4	-26.3	-26.3
Social security.....	5.0	13.2	25.4	10.1	15.0	0.4	3.7	10.4	10.7	14.8	12.2	15.8	10.9	33.3	34.2	33.2	33.2
Other.....	-2.4	-1.0	-1.3	-2.1	-1.6	-2.4	-2.4	-1.8	-1.9	-1.0	-1.6	-1.3	-1.4	-1.3	-1.2	-1.1	-1.1
Legislation proposed:																	
Windfall profits tax.....		5.0	12.2		7.8					5.2	0.4	8.9	15.9	11.5	12.0	14.2	14.2
Foreign tax credit.....		.4	.7		.9					.7	.8	.8	.8	.7	.7	.7	.7
Other.....		.4	.3		.7					.3	.5	.7	.5	.5	.7	.7	.7
Other.....	487.1	534.7	599.8	498.3	545.2	478.2	487.1	585.0	.....	526.2	535.0	545.4	562.8	589.9	589.3	615.0	615.0
Personal tax and nontax receipts.....	220.8	245.1	279.7	220.0	252.0	213.0	223.4	233.2	248.5	242.2	247.3	244.2	264.2	274.5	285.7	284.3	284.3
Legislation enacted:																	
Revenue Act of 1978.....	-1.4	-25.8	-17.4	-3.0	-14.8	-1.8	-1.9	-1.9	-1.8	-13.8	-14.8	-15.1	-15.8	-16.6	-17.1	-17.7	-17.7
Excluding over-withholding.....	-8.0	-10.2	-13.8	-12.3	-10.0	-11.4	-12.0	-12.3	-13.1	-15.8	-16.2	-16.8	-17.0	-18.2	-19.0	-19.7	-19.7
Over-withholding.....	6.6	1.4	6.4	9.3	1.8	0.0	10.1	10.0	11.3	2.0	1.7	1.7	1.8	1.6	1.9	2.0	2.0
Other.....	-1.3	-7.7	-7.7	-1.5	-7.7	-1.8	-1.8	-1.2	-1.2	-7.7	-7.7	-7.7	-7.7	-7.7	-7.7	-7.7	-7.7
Legislation proposed:																	
Windfall profits tax offset.....		-6.0	-1.5		-5.5					-1.0	-5.5	-5.5	-5.5	-1.5	-1.6	-1.5	-1.5
Other.....		.1	.3		.2					.2	.3	.3	.4	.4	.4	.4	.4
Other.....	220.4	261.0	298.0	223.3	267.5	213.8	227.1	238.3	255.5	250.7	261.3	270.2	280.3	291.8	306.6	312.9	312.9
Corporate profits tax receipts.....	78.4	70.5	77.1	78.3	74.3	77.2	74.9	70.4	75.1	76.5	73.4	73.9	76.8	78.1	78.1	80.3	80.3
Legislation enacted:																	
Revenue Act of 1978.....	-3.0	-7.0	-8.0	-0.8	-7.0	-0.4	-0.7	-8.0	-7.1	-7.2	-8.0	-8.9	-7.0	-8.0	-8.3	-8.0	-8.0
Other.....	-9.0	-6.0	-9.0	-9.0	-5.5	-9.0	-9.0	-9.0	-9.0	-5.5	-9.0	-9.0	-9.0	-9.0	-9.0	-9.0	-9.0
Legislation proposed:																	
Windfall profits tax offset.....		-2.0	-7.1		-4.4					-2.8	-3.8	-4.8	-0.0	-0.8	-7.0	-8.2	-8.2
Foreign tax credit.....		.4	.7		.8					.7	.8	.8	.8	.7	1.2	1.2	1.2
Other.....		.3	1.0		.3					.3	.3	.3	.3	.3	.3	.3	.3
Other.....	53.0	85.0	81.1	85.7	86.1	84.2	82.2	80.9	80.5	80.0	83.6	84.2	80.5	88.4	92.6	90.1	90.1
Indirect business tax and nontax receipts.....	20.4	38.5	53.0	30.0	42.9	20.4	29.9	40.0	40.7	38.2	41.0	44.1	48.3	51.4	54.5	67.7	67.7
Legislation enacted:																	
Windfall profits tax.....		8.4	20.8		12.7					8.0	11.2	14.3	17.4	10.8	22.0	23.0	23.0
Other.....		.1	.5		.1					.1	.5	.5	.5	.6	.4	.4	.4
Legislation proposed:																	
Windfall profits tax offset.....		20.4	31.7	30.0	30.4	20.4	28.9	38.0	38.7	20.6	30.1	34.8	30.0	31.1	32.3	33.1	33.1
Other.....		192.4	178.3	197.9	175.7	185.5	167.5	160.2	164.1	170.7	175.0	177.1	180.0	202.6	203.1	208.0	208.0
Legislation enacted: social security.....	6.0	12.2	28.4	10.1	15.6	0.4	9.7	10.4	10.7	14.9	15.2	15.9	10.3	33.3	34.2	33.2	33.2
Legislation proposed:																	
Social security.....	147.4	157.8	160.0	149.2	160.6	140.1	147.8	140.6	139.4	143.9	158.7	161.2	164.4	168.8	170.8	172.0	172.0
Federal Government expenditures.....	480.6	504.2	626.3	508.0	561.3	486.8	492.9	516.1	480.2	532.1	587.5	558.1	588.7	618.1	628.3	649.5	649.5
Legislation enacted:																	
Energy security trust fund.....		1.6	3.0		2.1					.9	2.0	1.1	2.4	2.0	3.0	3.5	3.5
Social security reductions.....			-1.1		-1.5								-1.2	-7.7	-1.3	-2.9	-2.9
Countercyclical and targeted fiscal assistance.....		.3	1.0		.5								1.0	1.3	1.6	1.6	1.6
Other.....	408.0	562.4	623.4	508.0	570.2	480.5	492.9	516.1	480.2	531.2	585.5	556.9	586.3	606.4	625.1	647.0	647.0
Purchases of goods and services.....	102.4	105.0	102.0	106.3	100.5	103.0	103.7	103.0	103.0	103.4	103.4	103.4	103.4	103.4	103.4	103.4	103.4
National defense.....	103.0	116.7	132.1	104.2	122.0	103.4	103.0	103.0	103.0	114.0	117.3	120.0	122.8	126.0	130.7	138.4	138.4
Pay raises:																	
October 1979.....		2.7	3.7	.7	2.7					2.0	2.7	2.7	2.7	2.7	2.7	2.7	2.7
October 1980.....			2.8		2.7									2.8	2.8	2.8	2.8
Other.....	103.0	110.0	125.0	107.5	118.6	103.4	103.0	103.0	103.0	112.0	114.0	117.3	120.0	122.7	125.2	127.0	127.0
Nondefense.....	56.3	60.9	70.8	58.1	68.3	60.2	55.7	53.9	53.9	63.8	68.2	68.0	68.0	68.1	70.8	71.2	71.2
Legislation enacted:																	
Energy security trust fund.....		.1	.1		.1					.1	.1	.1	.1	.1	.1	.1	.1
Pay raises:																	
October 1979.....		1.2	1.2	.3	1.2					1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2
October 1980.....			1.3		.8									1.2	1.2	1.2	1.2
Commodity Credit Corporation.....		1.7	1.7	-1.8	1.8	3.0	-2.3	-0.6	-0.6	1.4	3.7	2.2	1.6	-1.1	-1.1	-1.1	-1.1
Regular.....		-8.0	-1.1	-1.9	-2.4	2.0	-2.3	-0.6	-0.6	1.4	-3.0	-4.0	-2.4	-1.1	-1.1	-1.1	-1.1
Russian grain sale suspension.....		2.0	-2.1	-8.0	-1.1	-0.6	-0.7	-1.0	-1.0	-7.7	-7.7	-7.7	-7.7	-7.7	-7.7	-7.7	-7.7
Naval petroleum reserve sales.....		58.1	78.4	60.4	80.3	58.2	58.9	58.9	58.9	62.0	64.2	65.0	64.8	65.2	66.7	73.3	73.3
Other.....	58.1	84.8	78.4	60.4	80.3	58.2	58.9	58.9	58.9	62.0	64.2	65.0	64.8	65.2	66.7	73.3	73.3
Transfer payments.....	201.7	235.1	267.0	203.6	219.4	100.8	201.9	217.6	221.7	228.7	234.8	244.5	256.0	262.4	260.3	268.3	268.3
To persons.....	107.7	230.0	263.2	203.7	210.1	102.7	108.0	213.9	217.7	224.5	230.5	236.2	246.2	250.0	253.0	277.0	277.0
Legislation enacted:																	
Energy security trust fund.....		.4	.7		.0					.6	.0	.0	.0	.7	.7	.7	.7
Social security reductions.....			-1.1		-1.5									-1.2	-7.7	-1.3	-2.9
Unemployment benefits.....		15.1	15.1	8.0	14.7	8.0	8.7	8.3	9.0	12.3	14.2	16.1	16.1	10.1	10.1	15.0	15.0
Regular.....		11.0	14.2	8.8	13.1	8.4	8.4	8.1	8.7	11.3	12.7	14.0	14.0	14.2	14.2	14.1	14.1
Extended.....		2.2	1.9	1.2	1.6	1.2	1.3	1.2	1.3	1.0	1.5	2.1	2.1	2.0	1.9	1.6	1.6
Other.....	188.0	217.4	247.5	194.7	221.8	232.1	233.3	204.6	207.8	211.6	215.7	223.2	235.2	241.9	246.4	263.3	263.3
To foreigners.....	4.0	4.2	4.2	3.0	4.3	4.0	3.9	3.7	4.0	4.2	4.2	4.2	4.2	4.4	4.4	4.4	4.4
Grants-in-aid to State and local governments.....	70.3	84.3	90.7	80.8													

windfall profits tax, increase \$3 billion; the telephone excise tax is reduced.

Expenditures increase \$9 billion. Defense purchases continue their up-trend, but nondefense spending slows. The slowdown in transfers reflects proposed changes in the medicare program and a decrease in unemployment benefits.

Second quarter 1981.—Receipts in-

crease \$20 billion; strong increases in incomes are the major factor.

Expenditures increase \$10 billion. Cost-of-living increases in benefits paid Federal retirees increase transfer payments. Other categories increase at about the same pace as in the first quarter.

Third quarter 1981.—Receipts increase \$17 billion. Personal taxes increase \$9 billion, corporate profits taxes

\$2 billion, indirect business taxes \$3 billion, and contributions for social insurance \$3 billion.

Expenditures increase \$21 billion; well over half, or \$13 billion, is due to a 9.9-percent increase in social security benefits. Defense purchases continue up strongly; subsidies slow down; other nondefense categories increase moderately.

Table 8.—Selected Tax Changes, NIPA Basis

(Billions of dollars)

	Fiscal year				Calendar year							
	1980	1981	1980	1981	1980				1981			
					I	II	III	IV	I	II	III	IV
Seasonally adjusted at annual rates												
Direct impact on Federal sector deficit, NIPA basis <sup>1</sup> .....	-4.8	18.8	0.3	24.8	-2.3	-.3	2.1	4.4	22.3	24.0	25.5	27.5
Personal tax and nontax receipts.....	-15.2	-15.3	-15.8	-16.2	-14.5	-16.0	-16.8	-16.6	-17.3	-17.8	-18.4	-19.1
Legislation enacted.....	-15.5	-15.1	-15.3	-16.1	-14.5	-15.2	-15.8	-15.5	-17.2	-17.8	-18.4	-19.1
Revenue Act of 1978.....	-14.8	-17.4	-14.8	-17.4	-13.8	-14.5	-15.1	-15.8	-10.5	-17.1	-17.7	-18.4
Withheld income tax.....	-.2	-.2	-.2	-.2	-.2	-.2	-.2	-.2	-.2	-.2	-.2	-.2
Excluding overwithholding.....	-12.0	-13.0	-12.4	-14.3	-11.0	-12.1	-12.5	-13.1	-13.0	-14.2	-14.7	-15.3
Overwithholding.....	11.8	13.7	12.2	14.2	11.7	11.9	12.3	12.9	13.4	14.0	14.3	15.0
Declaration and net settlements.....	-14.6	-17.2	-14.6	-17.2	-13.6	-14.3	-14.0	-15.6	-15.3	-16.0	-17.3	-18.1
Excluding overwithholding.....	-4.2	-4.0	-4.2	-4.9	-3.0	-4.1	-4.3	-4.6	-4.7	-4.8	-5.0	-5.2
Overwithholding.....	-10.4	-12.3	-10.4	-12.3	-0.7	-10.3	-10.0	-11.1	-11.6	-12.1	-12.3	-12.9
Energy Act of 1978.....	-.6	-.5	-.5	-.3	-.5	-.5	-.5	-.5	-.5	-.5	-.5	-.5
Foreign Earned Income Act of 1978.....	-.2	-.2	-.2	-.2	-.2	-.2	-.2	-.2	-.2	-.2	-.2	-.2
Legislation proposed.....	-.4	-.2	-.3	.....	.....	-.8	-.2	-.1	-.1	.....	.....	.....
Withheld income tax:	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Independent contractors.....	.....	.6	.....	.7	.....	.....	.....	.....	.6	.7	.7	.7
Declaration and net settlements.....	-.4	-1.0	-.4	-1.0	.....	-.8	-.4	-.4	-1.0	-1.0	-1.0	-1.0
Windfall profits tax offset.....	-.6	-1.6	-.3	-1.3	.....	-1.0	-.6	-.5	-1.3	-1.5	-1.5	-1.6
Other.....	.1	.8	.1	.5	.....	.2	.1	.1	.3	.5	.5	.6
Nontaxes:	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Non-profit insurance carriers.....	.....	.3	.1	.3	.....	.....	.2	.3	.3	.3	.3	.3
Corporate profits tax accruals.....	-9.5	-14.0	-10.8	-15.2	-9.5	-10.1	-11.2	-12.4	-12.6	-14.7	-16.8	-17.7
Legislation enacted.....	-7.0	-8.0	-7.5	-8.0	-7.7	-7.4	-7.4	-7.5	-8.0	-8.0	-8.2	-8.5
Revenue Act of 1978.....	-7.0	-8.0	-7.0	-8.5	-7.2	-8.0	-8.0	-7.0	-8.0	-8.3	-8.6	-8.0
Other.....	-.0	-.0	-.5	-.6	-.5	-.6	-.6	-.5	-.0	-.0	-.0	-.0
Legislation proposed.....	-1.0	-5.4	-3.3	-6.2	-1.8	-2.7	-3.8	-4.0	-5.0	-5.8	-6.4	-7.2
Windfall profits tax offset.....	-2.8	-7.1	-4.4	-8.0	-2.8	-3.6	-4.9	-5.0	-6.3	-7.6	-8.2	-8.2
Energy credits.....	-.1	-.2	-.1	-.3	-.1	-.1	-.1	-.1	-.3	-.3	-.3	-.3
Tax-exempt mortgage bonds.....	-.2	.0	.2	1.2	.2	.2	.2	.2	1.1	1.3	1.2	1.3
Foreign tax credit.....	.7	.7	.8	.0	.7	.8	.8	.8	.7	.6	.6	.7
Other.....	.3	.3	.2	.3	.2	.2	.2	.2	.3	.3	.3	.3
Indirect business tax and nontax accruals.....	8.1	21.3	23.8	12.5	7.6	10.8	14.1	17.8	20.1	23.5	24.3	27.4
Legislation enacted.....	-.3	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Telephone tax.....	-.3	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Oil and petroleum fees.....	.....	.7	.1	.8	.....	.....	.1	.3	.0	.8	.0	1.0
Legislation proposed.....	8.4	21.3	23.8	23.6	8.0	11.2	14.4	17.0	20.3	22.5	24.4	27.2
Windfall profits tax.....	8.4	20.8	22.7	23.1	8.0	11.2	14.3	17.4	19.8	22.0	23.9	26.7
Hazardous wastes.....	.....	.1	.1	.2	.....	.....	.....	.2	.2	.2	.2	.2
Aircraft and avionics.....	.....	.2	.2	.2	.....	.....	.....	.2	.2	.2	.2	.2
Aviation fuel.....	.....	.2	.....	.1	.....	.....	.1	.1	.1	.1	.1	.1
Contributions for social insurance.....	13.2	28.8	15.6	35.2	14.5	15.2	16.9	10.5	33.8	34.7	36.7	36.8
Legislation enacted.....	13.2	28.4	15.0	34.7	14.8	15.3	16.9	10.3	33.3	34.2	35.2	36.1
OASDI employer and employee.....	11.8	21.3	14.2	32.0	13.6	14.0	15.8	14.7	31.3	32.2	32.0	33.8
Base increases:	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
\$17,700 to \$22,000.....	1.7	2.1	1.0	2.1	1.8	1.8	1.0	2.0	2.0	2.1	2.1	2.2
\$22,000 to \$25,000.....	1.6	3.8	3.0	3.9	3.4	3.5	3.0	3.7	3.8	3.9	3.0	4.0
\$25,000 to \$30,700.....	.....	1.5	.....	4.1	.....	.....	.....	.....	3.0	4.0	4.1	4.2
Rate increases:	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
12.1% to 12.20%.....	8.7	8.3	8.7	9.6	8.4	8.5	8.8	9.0	8.2	8.4	9.0	9.8
12.20% to 13.3%.....	.....	8.0	.....	18.0	.....	.....	.....	.....	12.4	12.8	13.2	13.0
OASDI self-employed: base and rate increases.....	1.0	1.4	1.0	1.4	.0	.0	1.0	1.0	1.4	1.4	1.4	1.4
SMI rate increases.....	.4	.7	.6	.8	.3	.3	.6	.8	.6	.6	.0	.0
Legislation proposed.....	.....	.5	.1	.4	.....	.....	.....	.2	.8	.5	.5	.5
OASDI self-employed and independent contractors.....	.....	.2	.1	.2	.....	.....	.....	.2	.2	.2	.2	.2
Railroad retirement.....	.....	.3	.....	.3	.....	.....	.....	.....	.3	.3	.3	.3

1. The estimates are based on the direct effect only of tax changes at a given level of economic activity. Induced effects are not included here, but are included in total NIPA re-

ceipts and the total for each category of receipts shown in table 7.

### High-employment surplus or deficit

The high-employment surplus is an estimate of the amount by which Federal revenues would exceed Federal expenditures if the economy were operating at a hypothetical high-employment level of activity at current price levels. Consequently, cyclical fluctuations in the economy do not affect high-employment budget receipts or expenditures. It is therefore a better, although still imperfect, measure of discretionary fiscal policy.

As measured on a high-employment basis, the budget shifted from deficit to surplus in calendar 1979 (table 9). In 1980, the high-employment surplus increases somewhat further, and in 1981, under the impact of tax increases, it amounts to \$65.5 billion. The projected increase from 1980 to 1981—\$47.3 billion—is unusually large. Thus, the course of fiscal policy shifted toward restraint in 1979, is moderately restrictive in 1980, and is highly restrictive in 1981.

The high-employment budget calculations reflect lower estimates of potential GNP than estimated by the CEA in last year's *Annual Report*. Last year's projection of potential GNP growth was 3 percent over the 1978-83 period, including trend productivity growth of 1½ percent. Poor productivity

performance in 1979 raised questions about this long-term growth; the CEA does not now believe that cyclically adjusted productivity growth can recover fully from its 1979 low and reach the 1½-percent trend in the next few years. Accordingly, the new estimate of potential GNP growth for 1979-81 has been reduced from 3 percent to 2½ percent. It can be divided into the following components: an annual growth in potential employment of nearly 2 percent, an annual increase in productivity of about 1 percent, and an annual one-half of one percent decline in hours per worker. However, this lower growth of potential is expected to be temporary; productivity growth is expected to increase in 1982, and consequently a 3-percent potential GNP is projected for the 1982-83 period.

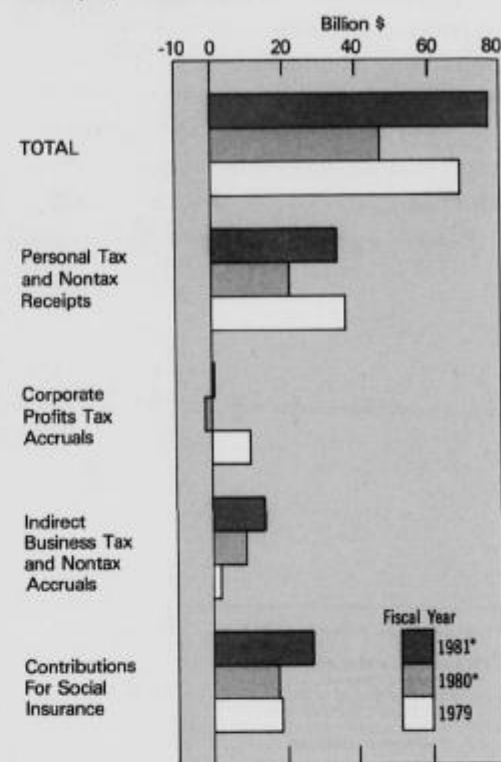
During 1979, the CEA and other Federal agencies worked to improve the measurement of the high-employment budget. New estimates of income shares, marginal tax rates, and tax elasticities were calculated and, for the first time, cyclical adjustments were made for certain expenditures other than unemployment benefits, such as for food stamps. Further refinements are expected in 1980, and these refinements and historical estimates of the high-employment budget will be published in the SURVEY OF CURRENT BUSINESS; BEA will then regularly prepare and publish current quarterly estimates and revisions of the historical series.

### Federal Sector Receipts

Federal receipts on the NIPA basis in 1981 are \$607.7 billion. The 1981 increase—\$77.1 billion—is much larger than the 1980 increase because of substantial tax increases and a pickup in economic activity following the slowdown in 1980 (chart 3).

Higher tax bases—reflecting mainly the impact of inflation—account for \$55.1 billion of the 1981 increase; the net effect of all tax changes—both enacted and proposed—is to add \$22.0 billion. In 1980, higher tax bases account for \$46.8 billion; net tax

CHART 3  
Changes in Federal Government Receipts, NIPA Basis



\*Estimates by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis

80-2-1

changes add only \$0.1 billion (table 10).<sup>2</sup>

The only major tax proposal is for a windfall profits tax on domestic oil producers. The tax, originally proposed in April 1979 as part of the program to decontrol domestic crude oil prices, is an excise tax and therefore deductible for corporate and individual income tax purposes. The other major tax increases are for social security under legislation already enacted. Other enacted legislation having a significant effect on year-to-year changes shown in table 10 are the Revenue Act of 1978, the Foreign Earned Income Act

Table 9.—High-Employment Surplus or Deficit (—), NIPA Basis

[Billions of dollars]		
	High employment surplus or deficit (—)	Change
<b>Calendar year:</b>		
1978.....	-11.6	7.0
1979.....	9.8	21.4
1980.....	18.2	8.4
1981.....	65.5	47.4
<b>Half-year (seasonally adjusted at annual rates):</b>		
1978:		
First half.....	-15.4	13.8
Second half.....	-6.7	9.8
1979:		
First half.....	6.9	13.6
Second half.....	12.7	5.7
1980:		
First half.....	15.6	2.9
Second half.....	20.7	5.2
1981:		
First half.....	64.2	43.4
Second half.....	66.9	2.8

Source: Council of Economic Advisers and Bureau of Economic Analysis.

2. Table 10 shows the effect of all tax changes since the fourth quarter of 1977 on year-to-year changes in receipts. Tax changes since that time must be included because the fourth quarter of 1977 is in fiscal 1978, which is used to calculate the year-to-year change for 1979.

Table 8, unlike table 10, does not show the effect of every tax change since fiscal 1978. It focuses on the quarterly impact of proposed legislation, the major tax legislation enacted in 1978, and social security rate and base changes since 1979. It provides additional detail on enacted and proposed tax legislation shown in table 7.

**Table 10.—Breakdown of Changes in Federal Receipts, NIPA Basis**

[Billions of dollars]

	Change from preceding fiscal year		
	1979	1980	1981
<b>Total receipts.....</b>	<b>69.0</b>	<b>46.9</b>	<b>77.1</b>
Due to higher tax bases.....	67.4	46.8	55.1
Due to tax changes <sup>1</sup> .....	1.6	.1	22.0
Enacted.....	1.2	-5.5	11.9
Proposed.....	2.4	5.6	10.1
<b>Personal tax and nontax receipts.....</b>	<b>37.2</b>	<b>21.6</b>	<b>34.6</b>
Due to higher tax bases.....	40.0	33.7	37.0
Due to tax changes.....	-2.8	-12.1	-2.4
Enacted.....	-2.8	-11.7	-2.6
Proposed.....	—	—	.2
<b>Corporate profits tax accruals.....</b>	<b>10.7</b>	<b>-1.9</b>	<b>.6</b>
Due to higher tax bases.....	14.6	2.2	5.1
Due to tax changes.....	-3.9	-4.1	-4.5
Enacted.....	-4.3	-1.7	-1.0
Proposed.....	2.4	-2.4	-3.5
<b>Indirect business tax and nontax accruals.....</b>	<b>2.2</b>	<b>9.1</b>	<b>14.5</b>
Due to higher tax bases.....	2.4	1.1	1.3
Due to tax changes.....	-2.2	8.0	13.2
Enacted.....	-2.2	—	.3
Proposed.....	—	8.4	12.9
<b>Contributions for social insurance.....</b>	<b>18.9</b>	<b>18.1</b>	<b>27.4</b>
Due to higher tax bases.....	10.4	9.8	11.7
Due to tax changes.....	8.5	8.3	15.7
Enacted.....	8.5	8.3	15.2
Proposed.....	—	—	.5

1. Consists of all tax changes since fiscal 1978.

2. Includes a proposed tax increase involving the foreign tax credit, which is retroactive to 1979 and not yet included in published corporate profits tax accruals.

of 1978, the Energy Act of 1978, and the Tax Reduction and Simplification Act of 1977; these Acts reduce individual and corporate income taxes in all three years. Provisions of these Acts have been discussed in the February and November 1978 issues of the SURVEY.

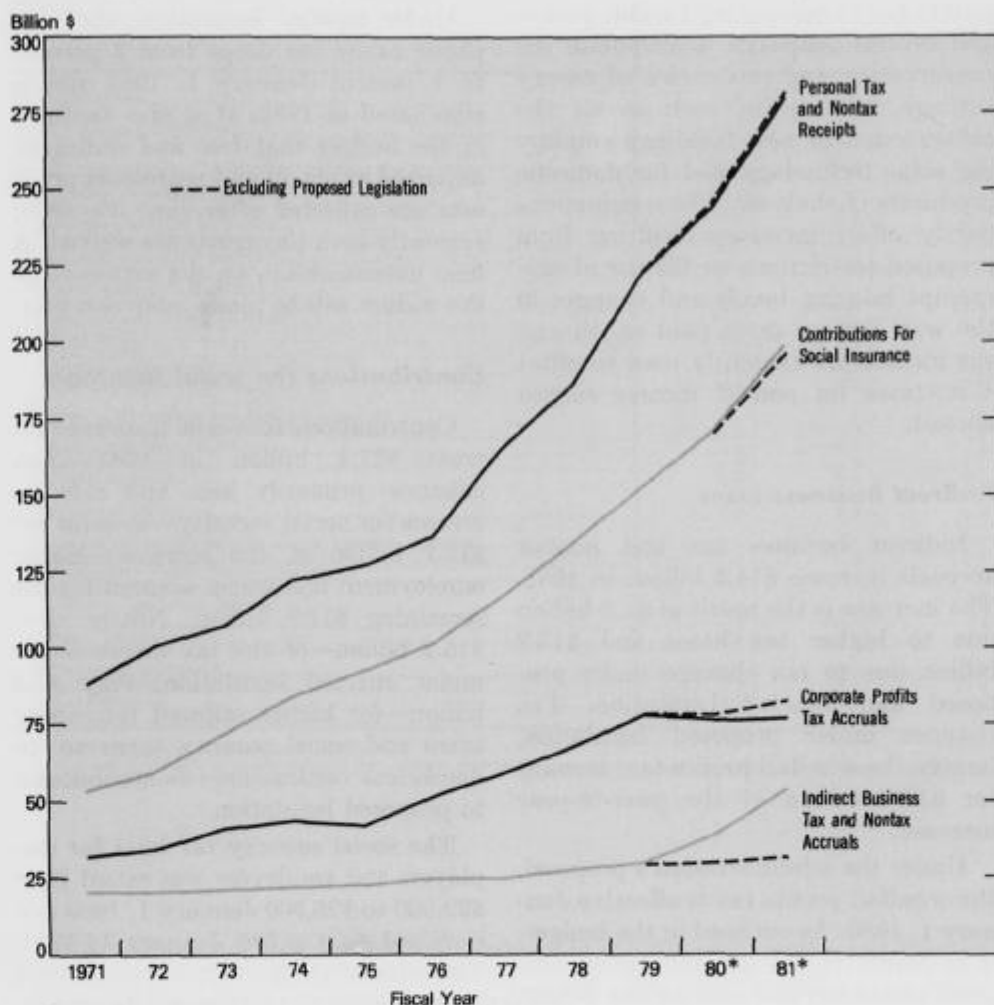
### Personal taxes

Personal tax and nontax receipts increase \$34.6 billion in 1981 (chart 4). The net increase consists of a \$37 billion increase due to higher incomes partly offset by a \$2.4 billion decrease due to tax changes. The \$2.4 billion decrease results from a larger reduction in 1981 taxes than in 1980 taxes.

The reduction in 1981 (\$18.3 billion) results from \$18.1 billion from enacted legislation and \$0.2 billion from proposed legislation. The reduction in 1980 (\$15.9 billion) results from \$15.5 billion from enacted legislation and \$0.4 billion from proposed legislation.

The larger reduction attributable to enacted legislation in 1981 results principally from lower net settlements associated with the Revenue Act. The reductions attributable to proposed leg-

### Federal Government Receipts, NIPA Basis



\*Estimates by BEA

U.S. Department of Commerce, Bureau of Economic Analysis

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islation result because proprietors may deduct the windfall profits tax from taxable income, thus reducing personal tax payments in both years. In 1981, this reduction is partly offset by a proposal to institute a 10 percent withholding tax on compensation for services paid to certain independent contractors.

Net settlements decline in 1980 because overwithholding increased substantially in calendar 1979. The overwithholding resulted from the January 1979 changes in withholding schedules. Under the Revenue Act of 1978, liabilities on income subject to withholding were reduced about \$10½ billion in 1979, but payments were virtually unchanged. Consequently, net settlements are reduced in 1980.

### Corporate profits taxes

Corporate profits tax accruals increase \$0.6 billion in 1981, reversing the decline in 1980. The net increase consists of a \$5.1 billion increase due to higher taxable profits partly offset by a \$4.5 billion decrease due to tax changes. The \$4.5 billion decrease results from a larger reduction in 1981 taxes than in 1980 taxes.

The reduction in 1981 (\$14 billion) results from \$8.6 billion from enacted legislation and \$5.4 billion from proposed legislation. The reduction in 1980 (\$9.5 billion) results from \$7.6 billion from enacted legislation and \$1.9 billion from proposed legislation.

The larger reduction attributable to enacted legislation in 1981 reflects

provisions of the Revenue Act. The reductions under proposed legislation result from deducting the windfall profits tax in computing taxable profits and several proposals to stimulate the conservation and production of energy through tax credits, such as for the construction of new buildings employing solar technology and for domestic producers of shale oil. These reductions partly offset increases resulting from proposed restrictions on the use of tax-exempt housing bonds and changes in the way foreign taxes paid on oil and gas income are currently used to offset U.S. taxes on non-oil income earned abroad.

### Indirect business taxes

Indirect business tax and nontax accruals increase \$14.5 billion in 1981. The increase is the result of \$1.3 billion due to higher tax bases and \$13.2 billion due to tax changes under proposed and enacted legislation. Tax changes under proposed legislation, largely the windfall profits tax, account for \$12.9 billion of the year-to-year increase.

Under the administration's proposal, the windfall profits tax is effective January 1, 1980. As outlined in the budget, it is similar to the administration proposal presented last year to the Senate Finance Committee. The proposed tax base is equal to the amount a producer receives for domestically produced crude oil in excess of a base price and any State severance taxes attributable to the extra revenue. The tax rate is around 60 percent, depending on the type of oil. When this article was prepared, the differences between the two versions of a windfall profits tax passed in 1979 by the House of Representatives and by the Senate had not been completely resolved by a Conference Committee. It is expected that final action will reduce estimated 1981 receipts by about \$1 billion.

There are several minor proposals affecting indirect business taxes. These include fees for the cleanup of oil spills and hazardous wastes and a 6-percent tax on aircraft and avionics (both effective October 1, 1980), and a change in

the tax on aviation fuel from the present 7 cents per gallon tax to a 10-percent ad valorem tax (effective July 1, 1980).

Under enacted legislation, the telephone excise tax drops from 2 percent to 1 percent January 1, 1981 and is eliminated in 1982. It is also assumed in the budget that fees and duties on imported crude oil and petroleum products are collected after June 30, 1980; currently such payments are waived. A final determination on the extension of the waiver will be made later this year.

### Contributions for social insurance

Contributions for social insurance increase \$27.4 billion in 1981. Tax changes—primarily base and rate increases for social security—account for \$15.7 billion of the increase; higher employment and wages account for the remaining \$11.7 billion. Nearly all—\$15.2 billion—of the tax increases are under enacted legislation; only \$0.5 billion—for higher railroad retirement taxes and social security taxes on independent contractors—is attributable to proposed legislation.

The social security tax base for employers and employees was raised from \$22,900 to \$25,900 January 1, 1980 and is raised to \$29,700 January 1, 1981. The combined tax rate is raised from 12.26 percent to 13.3 percent January 1, 1981, a particularly large increase. The tax rate for self-employed persons is raised from 8.1 percent to 9.3 percent at the same time.

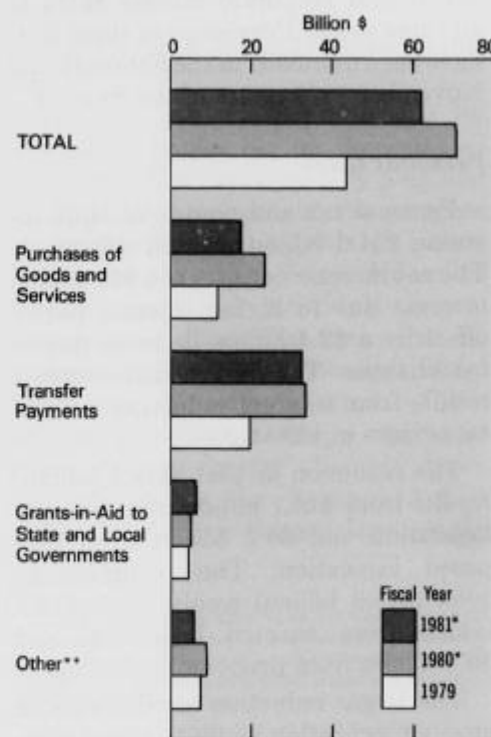
Increases in the social security tax base have their most pronounced effect on actual receipts in the second half of the year in which they occur because additional amounts in the tax base are for the most part earned later in the year. However, to seasonally adjust NIPA receipts, the effective rate for the whole calendar year is applied to each quarter. Hence, the step-up appears in the first quarter of the year in which the tax base is increased. Thus, the January 1980 base increase raised contributions about \$3.4 billion (annual rate) in the first quarter of 1980, and the January 1981 base increase raises contributions about \$3.9 billion in the first quarter of 1981.

Legislation is proposed to increase railroad retirement payroll taxes effective January 1, 1981. The largest part of the increase results from the elimination of the taxable earnings maximum (now \$1,850 per month) on the employer share of the tax.

## Federal Sector Expenditures

Federal expenditures in the NIPA's in 1981 are \$626.3 billion. The 1981 increase of \$62.1 billion compares with an increase of \$70.6 billion in 1980 (chart 5). Increases in transfer payments to persons (\$32.3 billion), national defense purchases (\$13.4 billion), and grants-in-aid to State and local governments (\$6.4 billion) account for 84 percent of the 1981 increase (table 7). Smaller increases are in nondefense purchases (\$3.9 billion), net interest paid (\$3 billion), and subsidies less current surplus of government enterprises (\$2.9 billion).

CHART 5  
Changes in Federal Government Expenditures, NIPA Basis



\*Estimates by BEA.

\*\*Consists of net interest and subsidies less current surplus of government enterprises.

U.S. Department of Commerce, Bureau of Economic Analysis

Table 11 highlights the major factors that contribute to recent changes in Federal expenditures. Social security benefits and military and civilian pensions contribute \$26.3 billion to the 1981 increase, pay raises \$4.1 billion, unemployment benefits and food stamps \$3.8 billion, net interest paid \$3 billion, and public assistance grants \$2.1 billion. Partly offsetting these increases is a decline in agriculture purchases resulting from the Russian grain sale suspension and increased naval petroleum reserve sales (which are recorded as negative purchases in the NIPA's). Of the \$18.8 billion increase in "all other expenditures", national defense expenditures are up \$10.6 billion, about the same as in 1980, and nondefense expenditures are up \$8.2 billion, substantially less than in 1980.

#### National defense purchases

National defense purchases increase \$13.4 billion in 1981, compared with \$12.9 billion in 1980 (table 12). This 2-year increase of over \$26 billion, or 25 percent, is the largest 2-year increase since 1966-68—the peak of the Vietnam War—when purchases increased 38 percent. The 1981 increase is directed primarily to preserve the U.S. strategic deterrent, to improve the combat effectiveness and readiness of NATO forces, and to enhance the capability to deter conflicts through the rapid deployment of forces.

Procurement of military hard goods increases \$3 billion in 1981. Increases are for a number of major weapon systems, including the cruise missile, the XM-1 tank, and the F-16 and F-18 fighter aircraft. Initial procurement of a new cargo ship for the rapid deployment force, the ninth Trident nuclear strategic missile submarine, and additional cruisers and patrol frigates are also scheduled for 1981. Current plans call for a \$45 billion 5-year shipbuilding program for 1981-85 for the construction of 97 new ships, compared with 67 that were planned last year for the same period. (The initial impact of an increase in procurement in production is larger than reflected in defense purchases, because

Table 11.—Breakdown of Changes in Federal Expenditures, NIPA Basis

(Billions of dollars)

	Change from preceding fiscal year		
	1979	1980	1981
Total expenditures.....	45.8	70.6	53.1
Energy Security Trust Fund.....		1.5	3.0
Other.....	43.0	68.5	50.1
Purchases of goods and services:			
Pay raises <sup>1</sup> .....	2.7	3.0	4.1
Russian grain sale suspension.....		2.8	-2.0
Naval reserve petroleum sales.....	-2	-2	-1.2
Strategic petroleum reserve.....		-3	.5
Transfer payments to persons:			
Social security.....	14.0	19.2	22.2
Military and civilian pensions.....	2.6	3.9	4.1
Food stamps.....	1.2	1.6	.5
Coal miners.....	.6	.3	-1.1
Earned income credit.....	-1	.9	-1.1
Unemployment benefits.....	-1.0	4.3	3.9
Grants-in-aid to State and local governments:			
Countercyclical and targeted fiscal assistance.....	-1.3	-.4	.7
Public service employment.....	-.9	-1.1	.4
Local public works.....	-1.3	-1.3	-1.1
Public assistance.....	2.0	1.5	2.1
Net interest paid.....	7.3	6.8	3.0
Subsidies less current surplus of government enterprises:			
Housing.....	.7	-.8	1.1
Commodity Credit Corporation deficit.....	.5	-.3	-.2
Agricultural subsidies:			
Russian grain sale suspension.....			.9
Other.....	-4	-1.3	.4
Postal Service.....	-7	1.0	.9
All other expenditures <sup>2</sup> .....	17.1	25.1	18.9
National defense.....	6.2	10.1	10.6
Nondefense.....	10.9	15.0	8.2

1. Consists of pay raises since October 1979.

2. Includes purchases of goods and services, transfer payments, grants-in-aid and subsidies less the current surplus of government enterprises.

Table 12.—Relation of National Defense Purchases in the National Income and Product Accounts to National Defense Outlays in the Unified Budget

(Billions of dollars)

	Fiscal year		
	Actual 1979	Estimates	
		1980	1981
National defense outlays in the unified budget.....	117.7	139.4	145.2
Department of Defense, military.....	115.0	127.4	142.7
Military personnel.....	26.4	30.6	31.7
Retired military personnel.....	19.2	11.9	12.7
Operation and maintenance.....	26.4	40.9	46.4
Procurement.....	25.4	27.6	30.5
Aircraft.....	3.9	10.3	11.5
Missiles.....	2.1	3.2	2.8
Ships.....	1.8	4.2	4.4
Weapons.....	3.0	3.2	3.5
Ammunitions.....	1.0	1.9	1.1
Other.....	8.0	6.0	7.1
Research, development, test, and evaluation.....	11.3	12.9	14.8
Other.....	2.3	3.5	3.8
Civilian and military pay raise <sup>1</sup> .....			1.8
Atomic energy and other defense related activities.....	2.7	3.8	8.5
Plus: Military assistance outlays.....	-.9	2.1	.8
Less: Transfer payments to retired military personnel.....	10.2	11.9	13.6
Grants-in-aid and net interest paid.....	.7	.8	.9
Timing differences and other adjustments.....		-1.1	-.4
Equals: National defense purchases, NIPA.....	105.9	118.7	132.1

1. Consists of the pay raise effective October 1980.

the production resulting from an increase in procurement is registered as an increase in business inventories until delivery, which is the basis on which purchases are registered.)

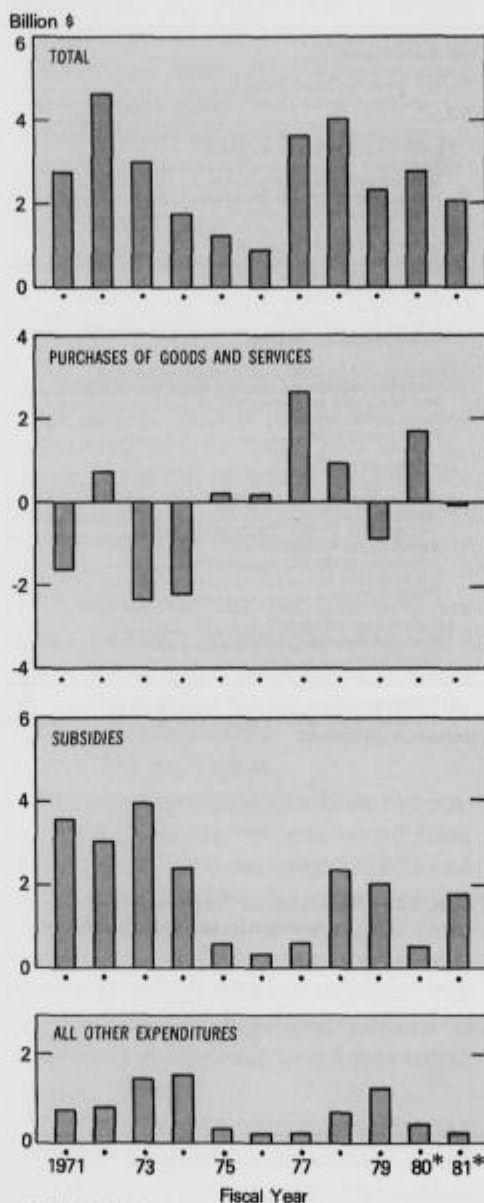
Operation and maintenance outlays increase \$5.5 billion in 1981, with emphasis on unit training and operational exercises, and on the replenishment of spare parts, depot maintenance, and modification of weapon systems. (Actual spending is likely to be higher because fuel costs are rising more rapidly than assumed in the budget.) Other increases are for research and development (\$1.9 billion) and the October 1980 military and civilian pay raise (\$1.8 billion). According to the budget, the military pay raise is 7.4 percent and the civilian raise is 6.2 percent. The increase in research and development includes development of the MX mobile ICBM system and a new transport aircraft designed to lift heavy cargo and to land on relatively short overseas runways. Table 12 shows the detail of unified budget outlays and a reconciliation with defense purchases on the NIPA basis.

### Nondefense purchases

Nondefense purchases increase \$3.9 billion in 1981, compared with \$10.4 billion in 1980. The large deceleration is due to a number of factors. First, 1980 purchases include \$2 billion for the Commodity Credit Corporation (CCC) to buy up contracts for wheat and feed grains sold to Russia but not delivered because of the administration's suspension of the sales in early January; these purchases are discontinued in 1981 (chart 6). Second, sales of crude petroleum from the naval reserves in California and Wyoming increase \$0.2 billion in 1980 and \$1.2 billion in 1981; these sales are recorded as negative purchases. Third, spending by NASA, particularly for the space shuttle, increases \$0.8 billion in 1980 and only \$0.4 billion in 1981. Excluding these factors, non-defense purchases increase \$6.7 billion in 1981, compared with \$7.8 billion in 1980, largely reflecting the administration's intention to limit increases in civilian spending.

The administration decided to return to the world market to purchase for

**Commodity Credit Corporation  
Expenditures, NIPA Basis**



\*Estimates by BEA  
U.S. Department of Commerce, Bureau of Economic Analysis

placement in the strategic petroleum reserve about 100,000 barrels of oil a day. These purchases had been deferred for some time to hold down the rapid increase in petroleum prices. Purchases may resume as early as February 1980 depending on world market conditions. Purchases for the strategic petroleum reserve are about \$1 billion in 1981, compared to less than \$0.5 billion in 1980.

### Transfer payments

Transfer payments to persons increase \$32.3 billion in 1981, compared with \$33.2 billion in 1980; a hospital cost containment proposal limits the 1981 increase.

Social security payments (excluding medicare) account for \$18.4 billion of the 1981 increase; \$14.2 billion is the result of cost-of-living increases in average benefits. A 13-percent increase in July 1980 adds \$11 billion to the 1981 increase, and a 9.9 percent increase in July 1981 adds \$3.2 billion. The administration is proposing to reduce disability payments—about \$0.1 billion—in 1981 through revision of benefit computations and increased work incentives. (A disability reform measure has been passed by the House.)

Medicare payments increase \$3.8 billion in 1981, about \$2.2 billion for hospital benefits and \$1.6 billion for medical benefits. Proposed hospital cost containment legislation places a limit on the annual increase in hospital inpatient costs; this and other proposed changes reduce medicare benefits \$1.1 billion in 1981.

Unemployment benefits increase \$3 billion in 1981, compared with \$4.3 billion in 1980. Eleven million workers are expected to receive benefits at some time in 1981, up from 10 million in 1980. Extended benefits, which provide an additional 13 weeks of benefits to covered workers who exhaust their regular (26 weeks) benefits, account for \$0.7 billion of the 1981 increase. Extended benefits amounted to only \$0.2 billion (annual rate) in the fourth quarter of 1979, but are estimated to total \$1.2 billion in 1980 and \$1.9 billion in 1981. The administration has revised the formula for triggering extended benefits, effective February 3. The revised formula uses only insured unemployment under the regular program as a percent of total insured workers to arrive at the trigger rate. The previous formula used insured workers under both the regular and extended benefit programs. It is estimated that an average of 3.4 million workers per week will receive both types of benefits in 1981, up from 2.9 million in 1980.

Transfer payments under the proposed energy security trust fund—

which are financed from existing legislation in 1980 and by the windfall profits tax thereafter—are \$0.4 billion in 1980 and \$0.7 billion in 1981. These payments assist supplemental security income recipients in paying fuel bills.

Other transfer payments increase \$6.8 billion in 1981 and \$9.3 billion in 1980. Increases were larger in 1980 than in 1981 in several programs. A larger increase in food stamps is due to legislative changes that resulted in an additional 1 million recipients receiving food stamps in 1979 and to minor reform proposals limiting the increase in 1981. In the case of the earned income credit, a larger increase in 1980 is a result of higher payments provided in the Revenue Act of 1978. Deceleration in other transfers in 1981 reflects the administration's intention to hold down domestic spending, and includes reforms in the military retirement system. One exception is for veterans benefits, which increase \$1 billion in 1981, compared with \$0.5 billion in 1980, largely the result of a 13-percent cost-of-living increase in compensation benefits, effective in October 1980, and a proposed 10-percent increase in readjustment benefits.

#### Grants-in-aid

Grants-in-aid to State and local governments increase \$6.4 billion in 1981, compared with \$5 billion in 1980. The 1980 increase was limited by declines in grants for public service employment and for local public works. Proposed legislation—for the energy security trust fund, the windfall profits tax on State oil royalties, and countercyclical and targeted fiscal assistance—contributes, on balance, between \$1.3 billion and \$1.4 billion to the increase in both years.

Grants under the proposed energy security trust fund are \$2.4 billion in 1981 and \$1.3 billion in 1980. The 1980 grants are mostly financed by existing legislation; the 1981 grants are financed from the windfall profits tax. These grants provide for energy assistance for low-income families, for improvements in mass transit, and for various energy conservation and research programs. The energy assistance is comprised of two programs: energy crisis assistance

to help low-income families experiencing energy-related financial problems, and a special energy allowance block grant program, which gives State governors latitude to design aid to fit the circumstances of their State. This aid can be in the form of cash assistance, fuel-bill payments, or other in-kind assistance. The mass transit grants enable transit companies to buy 6,000 new buses in 1981 with the Federal government paying 90 percent of the cost—twice the number purchased with federal aid in 1979.

The administration is also proposing to tax the higher oil royalties paid to oil producing States as a result of the decontrol of crude oil prices. As discussed earlier, the payments by States to the Federal government are treated as negative grants in the NIPA's and amount to \$0.3 billion in 1980 and \$0.7 billion in 1981.

The administration is proposing a combined countercyclical and targeted fiscal assistance program beginning in mid-1980; grants amount to \$1 billion in 1981, up \$0.7 billion from 1980. The countercyclical grants are triggered with a 2-quarter lag after the national unemployment rate reaches 6½ percent. The targeted fiscal assistance program is for 1 year and provides general purpose fiscal assistance to localities with high levels of unemployment and low economic growth. Payments to localities under countercyclical fiscal assistance are reduced by the amount of payments from targeted fiscal assistance.

Grants for public service employment increase \$0.4 billion in 1981, compared with a \$1.1 billion decline in 1980. The number of public service jobs peaked at about 605,000 in July 1979 and declined sharply thereafter to about 430,000 in December, reflecting cutbacks in program funding. The budget assumes a level of 450,000 jobs in 1981. About 250,000 of these jobs are for low-income, long-term unemployed persons; the other 200,000 jobs are for workers with higher incomes who experience shorter periods of unemployment.

Grants for other programs increase \$4.7 billion in 1981, compared with \$6.1 billion in 1980. Smaller increases occur in 1981 for highways, education, employment and training, and food and

nutrition. Public assistance grants (including medicaid) is the only program increasing more in 1981 than in 1980—\$2.1 billion compared with \$1.5 billion. The administration is proposing to add about \$0.5 billion to expand medical services, principally to include an additional 2 million children and pregnant women. The administration is also proposing to reduce spending about \$0.2 billion by simplifying eligibility rules for and improving administration of the aid to families with dependent children.

#### Other expenditures

Net interest paid increases \$3 billion in 1981, compared with \$8.8 billion in 1980. Under the convention adopted in last year's budget—that interest rates move with inflation—the 91-day Treasury bill rate declines gradually from about 12 percent, the prevailing rate when the estimates were made, to 10.5 percent in calendar year 1980 and 9 percent in 1981. In January 1980, the bill rate was about 270 basis points above the rate of a year earlier. This substantial rise is the major reason for the share increase in net interest paid in 1980. Debt held by the public (including the Federal Reserve System) increases \$33 billion in 1981, compared with \$44 billion in 1980. About one-half of the 1981 increase is due to the anticipated budget deficit and one-half is due to the activities of off-budget Federal entities.

Subsidies less the current surplus of government enterprises increase \$2.9 billion in 1981, compared with \$0.2 billion in 1980. The larger increase in 1981 is due to a rebound in agricultural subsidies. These subsidies increase \$1.2 billion in 1981, compared with a \$1.5 billion decline in 1980, when reductions in deficiency payments for wheat and feed grains occur. Additional subsidies for these crops, as a result of the Russian grain sale suspension, account for \$0.8 billion of the 1981 increase; the remaining increase is for regular disaster and deficiency payments. The administration has not yet established acreage set-asides for 1980 wheat and corn crops; a decision must be made by March, and if set-asides are established, 1981 agricultural subsidies may be as much as \$1 billion higher. Housing

subsidies increase \$1.1 billion in 1981 for an additional 60,000 new housing units and past commitments. Subsidies under the energy security trust fund to homeowners and businesses (including

utilities) for solar energy and energy conservation begin in late calendar year 1980 and contribute \$0.5 billion to the fiscal year 1981 increase. All other subsidies less current surplus are essen-

tially unchanged; a \$0.8 billion increase in the Postal Service deficit—which does not include any postal rate increase—is largely offset by declines in other areas.

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